

ASSEMBLY BILL

No. 1573

Introduced by Assembly Member Garcia

February 22, 2005

An act to add Sections 17140.5 and 17204.6 to the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 1573, as introduced, Garcia. Personal income taxes: individual development accounts.

The Personal Income Tax Law allows various deductions and exclusions in computing taxable income under that law.

This bill would also allow, up to \$5,000 annually and for 3 years per taxpayer, a deduction of the amount deposited in any taxable year in an individual development account, and would, for taxable years commencing on or after January 1, 2005, exclude from gross income any interest earned on the moneys deposited in an individual development account.

The bill would provide that amounts may be withdrawn from those accounts to pay for qualified individual development expenses, as defined.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 17140.5 is added to the Revenue and
- 2 Taxation Code, to read:

1 17140.5. For each taxable year beginning on or after January
2 1, 2005, gross income does not include, under the same
3 conditions as provided in Section 408 of the Internal Revenue
4 Code with respect to an individual retirement account, any
5 interest accruing during the taxable year to an individual
6 development account as defined in Section 17204.

7 SEC. 2. Section 17204.6 is added to the Revenue and
8 Taxation Code, to read:

9 17204.6. (a) For each taxable year beginning on or after
10 January 1, 2005, there shall be allowed as a deduction, for not
11 more than three taxable years per taxpayer, an amount equal to
12 the amount deposited by a taxpayer during the taxable year in an
13 individual development account, not to exceed five thousand
14 dollars (\$5,000). The dollar limitation in the preceding sentence
15 shall not preclude deposits of matching funds into an individual
16 development account by any person other than the taxpayer.

17 (b) For purposes of this section:

18 (1) "Individual development account" means a trustee or
19 custodial account that meets all of the following requirements:

20 (A) Is established by an individual whose gross income for the
21 taxable year does not exceed seventy-five thousand dollars
22 (\$75,000), or one hundred twenty thousand dollars (\$120,000)
23 total household income in the case of a family.

24 (B) Is designated as an individual development account by the
25 trustee or custodian.

26 (C) Is established for the exclusive benefit of any individual
27 establishing the account where the written governing instrument
28 creating the account provides for the following:

29 (i) All contributions to the account are required to be in cash.

30 (ii) The account is established to pay, pursuant to the
31 requirements and limitations of this section, for the qualified
32 individual development expenses of an individual establishing
33 the account.

34 (D) Is, except as otherwise required or authorized by this
35 section, subject to the same requirements and limitations as an
36 individual retirement account established under Section 408 of
37 the Internal Revenue Code, and any regulations adopted
38 thereunder.

39 (2) "Qualified individual development expenses" means
40 expenses, including a down payment, paid or incurred in

1 connection with the purchase of a residence for use by the
2 individual who established the individual development account
3 as his or her first principal residence, but only with respect to
4 expenses that are paid from the account within three years after it
5 is established.

6 (3) "Trustee or custodian" shall have the same meaning as
7 those terms have under Section 408 of the Internal Revenue
8 Code, and any regulations adopted thereunder.

9 (c) Any amount withdrawn from an individual development
10 account shall, except as otherwise provided in this section, be
11 included in the income of the payee or distributee for the taxable
12 year in which the payment or distribution is made, unless the
13 payment or distribution is made to pay for the qualified
14 individual development expenses of an individual that
15 established the account.

16 SEC. 3. This act provides for a tax levy within the meaning of
17 Article IV of the Constitution and shall go into immediate effect.